

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**CASH MANAGEMENT IN THE
DEFENSE WORKING CAPITAL FUNDS**

Report No. 98-039

December 15, 1997

19990928 023

Department of Defense

DTIC QUALITY INSPECTED 4

AQI99-12-2445

Additional Copies

To obtain additional copies of this audit report, contact the Secondary Reports Distribution Unit of the Analysis, Planning, and Technical Support Directorate at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch of the Analysis, Planning, and Technical Support Directorate at (703) 604-8908 (DSN 664-8908) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

OAIG-AUD (ATTN: APTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@DODIG.OSD.MIL; or by writing to the Defense Hotline, The Pentagon, Washington, DC 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

DFAS	Defense Finance and Accounting Service
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DMC	Defense Megacenters
DWCFs	Defense Working Capital Funds
FMR	Financial Management Regulation
GAO	General Accounting Office
IG	Inspector General
NAS	Naval Audit Service
OSD	Office of the Secretary of Defense
USD(C)	Under Secretary of Defense (Comptroller)
USTRANSCOM	United States Transportation Command
WCF	Working Capital Fund



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



December 15, 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, DEFENSE INFORMATION SYSTEMS
AGENCY
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Cash Management in the Defense Working Capital Funds
(Report No. 98-039)

We are providing this audit report for information and use. This is the second in a series of reports on issues related to cash, or the Fund Balance With Treasury Account, in the Defense Working Capital Funds (formerly the Defense Business Operations Fund). We considered comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. David F. Vincent, Audit Program Director, at (703) 604-9110 (DSN 664-9110), e-mail DVincent@DODIG.OSD.MIL, or Ms. Barbara A. Sauls, Audit Project Manager, at (703) 604-9129 (DSN 664-9129), e-mail BSauls@DODIG.OSD.MIL. See Appendix C for the report distribution. A list of audit team members is on the inside back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 98-039
(Project No. 5FH-2021.02)

December 15, 1997

Cash Management in the Defense Working Capital Funds

Executive Summary

Introduction. Cash management consists of developing overall cash plans, monitoring cash levels, monitoring collections and disbursements, correcting operational problems that affect cash, and managing cash to prevent Antideficiency Act violations. The issue of cash management in the Defense Working Capital Funds (formerly the Defense Business Operations Fund) was identified during our audit of the Fund Balance With Treasury Account of the FY 1996 Consolidated Financial Statements of the Defense Business Operations Fund. The Fund Balance With Treasury Account audit was performed to fulfill the requirements of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. This is the second in a series of reports on issues related to cash management. The first report discussed the need for better control of cash in the Defense agencies.

On February 1, 1995, the Under Secretary of Defense (Comptroller) delegated the responsibility for cash management in the Working Capital Funds to the Military Departments. The Defense Logistics Agency is responsible for the Defense-Wide Working Capital Fund cash management in the Defense agencies. During FY 1996, financial management offices of the Military Departments reported \$46 billion in collections and \$45.7 billion in disbursements. The Defense agencies reported collections of \$27.4 billion and disbursements of \$29 billion. As of September 30, 1996, the reported cash balance for the Defense Working Capital Funds was \$4.1 billion. On December 11, 1996, the Under Secretary of Defense (Comptroller) announced that the Defense Working Capital Funds would be separated into four (and potentially a fifth) working capital funds, one of which would be a Defense agencies' fund with cash managed by the Defense Logistics Agency. That realignment does not affect the issues discussed in this report.

Audit Objectives. The overall audit objective was to determine whether the Fund Balance With Treasury Account on the Consolidated Financial Statements of the Defense Working Capital Funds for FY 1996 was presented fairly in accordance with Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. For this portion of the audit, we reviewed actions taken by the Military Departments and the Defense agencies in response to prior audits related to cash management in the Defense Working Capital Funds. We also reviewed current cash management initiatives.

Audit Results. DoD organizations improved cash management in the Defense Working Capital Funds. The Defense Finance and Accounting Service established policies and procedures, and the Under Secretary of Defense (Comptroller) established a "Defense Working Capital Fund Study Group" with a cash management subcommittee. The Army and Navy began providing cash managers with instructions and training. However, significant problems remained.

DoD organizations could not maintain sufficient cash balances. This condition existed in part because DoD used interim actions to control cash levels, reacted to pressing unfunded mission requirements before funds were available, did not have the systems or trained personnel to properly monitor cash levels, and lacked clear and consistent guidance on cash management. Inventory reductions, advance billings, and transfers of funds have been used as interim measures to generate cash and prevent potential Antideficiency Act violations. However, those practices did not provide long-term solutions for the cash management problems. As a result, there was continued risk of violations of the Antideficiency Act and a potential for insolvency in the Defense Working Capital Funds.

DoD organizations were implementing previous audit recommendations to correct most of the problems. Therefore, we did not make repeat recommendations. However, one previously identified problem still existed; the Air Force did not develop procedures or implement a training program for its employees who were responsible for cash management.

Summary of Recommendations. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) develop procedures and implement a training program on cash management for Air Force employees involved in the day-to-day management of cash.

Management Comments. The Assistant Secretary of the Air Force (Financial Management and Comptroller) concurred with the recommendation to develop procedures and implement a training program on cash management for Air Force employees involved in the day-to-day management of cash. Although not required to comment on the draft report, the Office of the Under Secretary of Defense (Comptroller) provided clarifying information. See Part I for a discussion of management comments and Part III for the complete text of management comments.

Audit Response. The comments from the Assistant Secretary of the Air Force (Financial Management and Comptroller) were responsive. Minor changes to the report were made in response to comments from the Under Secretary of Defense (Comptroller).

Table of Contents

Executive Summary	i
Part I - Audit Results	
Audit Background	2
Audit Objectives	4
Cash Management in the Defense Working Capital Funds	5
Part II - Additional Information	
Appendix A. Audit Process	
Scope and Methodology	18
Management Control Program	18
Appendix B. Summary of Prior Coverage	19
Appendix C. Report Distribution	23
Part III - Management Comments	
Under Secretary of Defense (Comptroller) Comments	26
Assistant Secretary of the Air Force (Financial Management and Comptroller) Comments	28

Part I - Audit Results

Audit Background

Congress established the Defense Business Operations Fund, now the Defense Working Capital Funds (DWCFs), as a revolving fund on October 1, 1991. The DWCFs combined DoD- and Service-owned revolving funds formerly known as the stock and industrial funds. Certain Defense agencies that received appropriated funds were also included. The DWCFs were intended to provide improved financial management tools and establish incentives to control resources with greater efficiency. A significant part of the management of any revolving fund is cash management.

Before the establishment of the DWCFs, the managers of the stock and industrial funds were responsible for their own cash management. With the establishment of the DWCFs, the Under Secretary of Defense (Comptroller) (USD[C]) assumed centralized responsibility for cash management. With centralization, better cash control and reduced overall cash balance requirements were expected. However, the USD(C) could not maintain accountability over how the Military Departments and Defense agencies collected and disbursed cash. The USD(C) reacted to problems, rather than preventing problems that could cause cash balances to go below the minimum level defined in DoD 7000.14-R, the "DoD Financial Management Regulation" (FMR), December 1994.

Consequently, on February 1, 1995, the USD(C) decentralized DWCF cash by giving responsibility for DWCF cash management to the Military Departments and making the Defense Logistics Agency (DLA) responsible for cash management in the Defense agencies. The USD(C) believed that decentralized cash management gave the business area managers additional control and responsibility for their operations.

The DLA, as the cash manager for the Defense-Wide Working Capital Fund (WCF), managed and controlled cash for DLA, the Defense Commissary Agency, the Defense Finance and Accounting Service (DFAS), the Defense Information Systems Agency (DISA), the Joint Logistics Systems Center, and the United States Transportation Command (USTRANSCOM). During FY 1996, these Defense agencies reported collections of \$27.4 billion and disbursements of \$29 billion. The financial management offices of the Military Departments managed \$46 billion in collections and \$45.7 billion in disbursements. Table 1 shows collections and disbursements in the FY 1996 Fund Balance With Treasury Account for the Military Departments, the Office of the Secretary of Defense (OSD), and the Defense agencies.

Table 1. FY 1996 Fund Balance With Treasury
(millions)

<u>DoD Component</u>	<u>Collections</u>	<u>Disbursements</u>
Military Departments		
Army	\$ 9,330.1	\$ 9,135.8
Navy	23,501.0	23,082.2
Air Force	<u>13,245.1</u>	<u>13,432.6</u>
Subtotal, Military Departments	\$46,076.2	\$45,650.6
Office of the Secretary of Defense	(1.4)	(9.4)
Defense Agencies	<u>27,411.4</u>	<u>29,031.5</u>
Total	\$73,486.2	\$74,672.7

Source: Standard Form 133, "Report on Budget Execution Defense Business Operations Fund," September 30, 1996.

The USD(C) approved a recommendation by the Defense Business Operations Fund Corporate Board to eliminate the existing Defense Business Operations Fund and establish four (and potentially a fifth) working capital funds, as listed below:

- o the Army Working Capital Fund,
- o the Navy Working Capital Fund,
- o the Air Force Working Capital Fund,
- o the Defense-Wide Working Capital Fund (to be managed by the DLA), and
- o the Defense Commissary Agency Working Capital Fund (contingent on the passage of legislation concerning performance-based organizations).

Individual programs and financial statements will be prepared for each of the five working capital funds. This realignment will not affect the issues discussed in this report.

Audit Objectives

The overall audit objective was to determine whether the Fund Balance With Treasury Account on the Consolidated Financial Statements of the Defense Working Capital Funds for FY 1996 was presented fairly in accordance with Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. For this portion of the audit, we reviewed actions taken by the Military Departments and the Defense agencies in response to prior audits related to cash management in the Defense Working Capital Funds. We also reviewed current cash management initiatives.

See Appendix A for a discussion of the audit process and Appendix B for a summary of prior coverage.

Cash Management in the Defense Working Capital Funds

DoD organizations improved cash management in the Defense Working Capital Funds. The Defense Finance and Accounting Service developed operating policies and procedures for cash management reporting and the USD(C) established a "Defense Working Capital Fund Study Group" with a cash management subcommittee. The Army and Navy began providing cash managers with instructions and training. However, significant problems remain.

DoD organizations still could not maintain sufficient cash balances. This condition existed in part because DoD used interim actions to control cash levels, accomplished pressing unfunded mission requirements before funds were available, did not have the systems or trained personnel to properly monitor cash levels, and lacked clear and consistent guidance on cash management. Inventory reductions, advance billings, and transfers of funds have been used as interim measures to generate cash and prevent potential Antideficiency Act violations. However, those practices did not provide long-term solutions for the cash management problems. As a result, there was increased risk of future violations of the Antideficiency Act and a potential for insolvency in the Defense Working Capital Funds.

DoD organizations began implementing audit recommendations to correct most of the problems. Therefore, we did not make repeat recommendations. However, one problem still exists, the Air Force did not develop procedures or implement a training program for its employees who were responsible for cash management.

History of Cash Management

Initially, working capital fund and industrial fund activities used a decentralized approach to manage cash. In establishing the DWCFs, the USD(C) centralized and delegated cash management responsibilities to the Deputy USD(C) (Program/Budget Office), the DFAS, and the DoD Components. These responsibilities are outlined in the FMR, volume 11B, chapter 54, "Cash, Receivables, Advances, and Cash Management," December 1994. The Program/Budget Office develops overall cash plans, monitors cash levels, and corrects short-term cash shortages. The DFAS, as the accounting organization, is responsible for timely and accurate reporting of cash levels and for immediately resolving cash shortages. The DoD Components execute their own cash plans, monitor collections and disbursements, correct operational problems that affect cash, and manage cash to prevent Antideficiency Act violations under Title 31, United States Code, Section 1517(a), "Prohibited obligations and expenditures."

Cash Management in the Defense Working Capital Funds

In decentralizing DWCF cash management in February 1995, the USD(C) assigned cash management responsibilities to the Military Departments and made DLA responsible for cash management for the Defense agencies. The USD(C) believed that decentralizing cash management would improve the process; however, cash managers in the DoD Components had problems with managing collections and disbursements.

Interim Actions to Control Cash Levels

The DoD Components had problems maintaining a sufficient cash balance in the DWCFs. In addition, when cash was decentralized, the Navy needed cash in excess of the amount received to liquidate \$2.2 billion in advance billing liabilities. To generate cash and delay the consequences of cash shortages, the DoD Components used the reduction in DLA inventory as DoD downsized, and also used advance billings.

Inventory Downsizing. In FYs 1991 through 1995, the Defense Authorization Acts limited the rate of material replacement for DWCF inventory. In FY 1992, the limitation for DLA inventory was 80 percent of sales, and in FYs 1993 through 1995, 65 percent of sales.

In FY 1996, no limitations on the level of inventory replacement were imposed. This made it possible for cash generated by the DLA Supply Management activity group to be used to cover cash shortages in the other DWCF activity groups. DoD inventory, as shown in the financial statements, decreased from \$79.2 billion in FY 1992 to \$68 billion in FY 1994. However, cash also decreased from \$4.1 billion to \$2.4 billion during the same period.

Despite the cash reduction, the USD(C) transferred \$251.6 million from DLA to the Defense Commissary Agency. However, the problem with using inventory to generate cash is that eventually, no further reductions are possible. To maintain readiness, the Defense Business Operations Fund status report dated March 1996, stated that 85 percent of supplies should be available for FYs 1996 and 1997. The Military Departments increased their advance billing, which is another method of generating cash.

Advance Billing. Advance billing is the practice of billing customers upon acceptance of the order but in advance of performing the work or providing the goods and services. In April 1996, the GAO reported that the amount of cash returned to the Army, Navy, and Air Force on decentralization was insufficient to cover outstanding DWCF liabilities. Therefore, the Principal Deputy Under Secretary of Defense (Comptroller) authorized advance billing to ensure solvency of the DWCFs.

The Office of the Principal Deputy Under Secretary stated that billing from customers upon acceptance of orders became necessary to ensure that Congressionally mandated transfers from the DWCFs were completed. This

Cash Management in the Defense Working Capital Funds

was to be an interim action caused by extraordinary funding requirements in FY 1993, such as voluntary separation incentives and the cost of the Operation Restore Hope in Somalia.

However, advance billing continued after the end of FY 1993. In FYs 1996 and 1997, the Navy billed \$1.6 billion and \$772 million in advance.

The Naval Audit Service (NAS) issued a memorandum in December 1996, stating that very little could be done to alleviate cash shortages. The NAS determined that increasing the frequency of billing, collecting overaged accounts receivable, or increasing progress billings for work-in-process would not significantly improve the Navy's cash position.

The Army did not use advance billing in FYs 1996 and 1997. The Air Force, however, advance billed \$1.9 billion in FY 1997 to maintain a positive cash balance. The Air Force did not receive the funds budgeted for Depot Maintenance, which created the shortage. Table 2 shows the outstanding advance billings for the DoD Components and the cash balances that would have been on hand at the end of FY 1996 if advance billing had not been used to supplement cash.

DoD officials planned to stop advance billing and eliminate the backlog of advance billing orders after FY 1995. Subsequently, DoD postponed the date for eliminating the backlog orders to FY 1996 and then to FY 1997. As a result of Congressional concerns about advance billing, Public Law 104-106, "Defense Authorization Act for FY 1996," section 371, required that Congress be notified when new advance billings reached \$100 million. The law stated, "... the practice of advance billing appears to cause DWCF customers to refrain from purchasing goods and services and it appears to promote confusion, rather than good business, at the unit or installation level." In addition, for FY 1997, Congress prohibited the Navy WCF activities from advance billing in excess of \$1 billion. The flexibility to bill customers in advance to obtain additional cash ensures uninterrupted cash flow for DWCF business areas, but postpones the need to solve problems.

Cash Management in the Defense Working Capital Funds

**Table 2. Advance Billings and Reported Cash Balances,
September 30, 1996
(millions)**

<u>DoD Component</u>	<u>Reported Cash Balance</u>	<u>Outstanding Advance Billings</u>	<u>Cash Balance Without Advance Billing</u>
Army	\$ 624.2	\$ 75.9	\$ 548.3
Navy	2,041.2	1,230.0	811.2
Air Force	282.0	72.3	209.7
Defense Agencies	1,024.0	0.0	1,024.0
OSD*	<u>111.5</u>	<u>0.0</u>	<u>111.5</u>
Total	\$4,082.9	\$1,378.2	\$2,704.7

*Office of the Secretary of Defense.

Source: Unofficial records of Military Department financial management offices.

Corrective Actions Taken or Planned. DoD planned to eliminate advance billing in FY 1997, but could not do so without endangering solvency in DoD. The Navy required \$1.2 billion in cash over the next 3 years to eliminate the advance billing liability. In Public Law 104-208, "Omnibus Consolidated Appropriations Act, 1997," section 8120, Congress directed that for FY 1997, the Navy transfer at least \$500 million from procurement and research, development, test and evaluation appropriations to Navy customers' accounts used to reimburse the Navy WCF. The Navy asked for the remaining \$650 million in FYs 1998 and 1999. The NAS stated that the Navy will add a surcharge to all business area rates to generate \$500 million for FY 1998 and \$150 million for FY 1999. The Navy goal is to eliminate its advance billing liability by the end of FY 1999. The Air Force expects to increase its cash by using cash surcharges in both the Supply and Depot Maintenance business areas, and by limiting discretionary spending in FY 1998 in order to augment cash balances.

Mission-Essential Disbursements

DoD Components continued to perform mission-essential work for others without adequately funded customer orders. Unfunded military requirements such as Operation Joint Endeavor (U.S. participation in the Bosnia peace implementation force) created a cash shortage at USTRANSCOM. Consequently, the Army and the Air Force transferred funds to USTRANSCOM. In addition to unfunded requirements, activities did not

provide funding documents before starting work. Therefore, activities such as the DISA Defense Megacenters (DMCs) and DFAS could not bill their customers and collect for all services rendered.

To order work or services from a DWCF-financed organization, DoD Components use project orders when applicable. The FMR, volume 11B, chapter 61, sections A.2 and A.3, "Progress Billings, Reimbursements, and Revenue Recognition," states that generally, DWCF organizations should not perform work or provide goods and services without first receiving and accepting an order. There are exceptions, which include incurring limited costs in advance of a receipt or in an emergency.

Unfunded Requirements. USTRANSCOM provided transportation services without reimbursement to units participating in Operation Joint Endeavor. Such action restricted cash availability, but was not unexpected. On July 22, 1996, the Secretary of Defense issued a memorandum, "Waiver of Requirement to Reimburse Support Units," stating that such operations would receive special funding. This exception allowed participating activities to order goods and services now and reimburse DWCF organizations later. However, before accepting the orders, DWCF activities were to ensure that cash was available. If an Antideficiency Act violation could occur, the ordering activity was to provide the funding documents or transfer cash. In September 1996, the Army and the Air Force agreed to transfer \$53 million and \$24 million, respectively, from their DWCF accounts to USTRANSCOM to provide additional financial resources. These transfers enabled USTRANSCOM to continue operations without potentially violating the Antideficiency Act.

Funding Documents. DISA and DFAS continued to perform work for others without adequately funded customer orders because the work was mission-related. At DISA, the problem arose because for the first year, FY 1995, DMC customers budgeted for prior year costs, rather than the amount needed to recover the full costs of services. In addition, the DMCs were unable to provide accurate workload data. Some DMC customers did not include in their budget submissions the base support costs that had been previously budgeted by their host commands. As a result, the DMCs could not bill their customers and collect for all services rendered, and at the end of FY 1995, disbursements exceeded collections by \$35.5 million.

During FY 1995 and the first quarter of FY 1996, DFAS did not receive the required funding documents from the Military Departments and Defense agencies before rendering services. Without funding documents, DFAS was not able to bill and collect for services rendered. The Military Departments were to fund DFAS \$1.5 billion at the beginning of FY 1996. However, as of December 31, 1995, DFAS had received only 43 percent (\$645 million) of the funding. The Military Departments provided DFAS the remainder of the \$1.5 billion throughout FY 1996.

DFAS performed the services without the funding documents because work such as paying vendors and Government employees is considered mission-essential. The DFAS Deputy Director for Resource Management sent a memorandum to DLA on June 15, 1995, regarding the potential problems with

Cash Management in the Defense Working Capital Funds

the DFAS cash position. DFAS was concerned with its ability to maintain sufficient cash levels without receiving funding documents promptly. Unlike USTRANSCOM, which is required to report Antideficiency Act violations, DISA and DFAS balances are included in the Defense agencies' cash balances. Their potential shortage does not constitute a violation. The GAO also noted the problem with funding documents and customers' failure to reimburse DFAS promptly for services. For example, the Army and the Navy did not pay their bills promptly because DFAS did not always include sufficient details on the bills, such as the amounts owed by various activities and commands in the Military Departments.

We found similar problems dating back to 1995. The DFAS Columbus Center did not bill customers and other supported activities for reimbursable charges because they had not received authorized funding documents. USD(C) officials stated that beginning in FY 1996, DFAS customers were required to provide reimbursable funding documents to DFAS. The customers were to provide the documents for the entire amount within 10 working days after the beginning of the fiscal year. However, this did not occur.

Corrective Actions Taken. IG, DoD, Report No. 97-067, "Defense Agencies Cash Management in the Defense Business Operations Fund," January 10, 1997, made recommendations to the Director, DISA, that would improve the process of obtaining funding documents from customers. In FY 1996, DISA worked to ensure that costs and work loads were properly matched and billed to the appropriate customers. This improved the ability of DISA to bill all costs during the current period. Cost and workload data for the FY 1998 budget were provided to customers in early spring 1996. The data gave customers the necessary information to budget for full costs in FY 1998.

In response to the GAO recommendation to provide funding documents before beginning work, the Deputy Chief Financial Officer issued a memorandum to the DWCF Components on December 20, 1996, reemphasizing DoD policy on the acceptance of customer orders.

Cash Monitoring

DoD managers could not properly monitor actual cash levels. This was caused by incompatible systems and procedures, inadequate financial reports, and cash managers who were not adequately trained. As a result, cash managers reacted to problems, rather than preventing problems that could cause the balances to fall below the cash needed for the minimum number of days, as directed by DoD policy.

Systems and Procedures. DoD systems and procedures for cash collection and disbursements caused problems for cash managers. First, managers often were unable to bill customers, which increased accounts receivable. For example, at USTRANSCOM, needed information was not available to properly bill customers. Second, managers often did not know for months who had

disbursed their funds. Specifically, the interfund system, a Government billing process, did not give cash managers up-to-date information on the amounts of cash withdrawn by other activities. Managers were working on solutions to these problems, which continue to hinder proper cash management if not corrected.

Accounts Receivable. In April 1996, the GAO reported that USTRANSCOM could not always bill customers because billing codes were invalid. Billing codes identify the organizations that should be billed for goods and services. USTRANSCOM had \$697 million in accounts receivable. Of the \$697 million, \$437 million (63 percent) had not been billed. Of the \$437 million unbilled, USTRANSCOM estimated that \$125 million was due to invalid billing codes. Another \$100 million was unbilled because customers found problems with invalid billing codes and rejected bills.

Interfund Transactions. The use of the interfund system affected cash managers' ability to adequately monitor cash. Under the interfund billing process, when items are shipped, the selling organization processes a bill to collect against the receiving organization's balance with the U.S. Treasury. The system notifies the receiving organizations monthly of the amounts withdrawn by selling organizations. The initial information is a gross dollar amount with no supporting details. Detailed information identifying the items or services is provided in subsequent months. Cash management in the buying and selling organizations may be hindered because the date of collection is unknown. The GAO stated that interfund billing resulted in overstatements at the DFAS Cleveland Center of \$800 million to over \$1 billion in the Navy Aviation Depots. The Air Force Audit Agency is also concerned about the effects of interfund billing on cash managers' ability to manage cash.

Air Force Audit Agency Concerns With Interfund Billing. The Air Force Audit Agency determined that the Air Force did not have effective internal controls and procedures to safeguard cash against unauthorized or erroneous interfund disbursements. About 47 percent (\$6.3 billion) of all Air Force WCF disbursement transactions in FY 1996 were made by other agencies through interfund or similar cash systems. Those systems were developed to pay contractors and other Government agencies more promptly. However, controls are needed to prevent unauthorized or erroneous transactions. Problems with ineffective controls also exist at the Military Department and DFAS levels. The DWCF study group is addressing the issue of standardized cash systems.

Processing of Interfund Bills. The GAO reported that the processing of interfund bills caused overstatements of cash in several Navy business areas on department-level financial reports. The Navy problem with interfund processing occurs when the Army, the Air Force, and DLA sell materiel to Navy depot maintenance activities and use nonspecific codes to identify the Navy buying activity. The use of nonspecific codes results in interfund disbursement transactions not being charged to the Navy activity that is buying the materiel. In addition, the proper information is not recorded in

Cash Management in the Defense Working Capital Funds

the Navy department-level accounting records. The GAO reported that the Navy has had problems with processing interfund transactions since the early 1980s.

Corrective Actions Taken or Planned. The Military Transportation Operations Procedures group is working to validate existing billing codes and will establish an on-line centralized database of valid billing codes. GAO also discussed the processing of interfund transaction with officials at Headquarters, DFAS; as a result, DFAS has developed a list of specific activity fund codes for use by the Military Departments and DLA.

Financial Reports. Existing tools, such as the DWCF Accounting Report 1307, "Report of Operations," and the Weekly Flash Cash Report, were not always timely or accurate. Standard Form 133, the "Budget Execution Report," replaced the Department of Defense (DD) Form 1176, "Report on Budget Execution;" therefore, we will not discuss DD Form 1176 here. The problems with cash management tools have been previously reported by auditors from GAO, this office, and the Military Departments. DFAS needs to reduce or correct the weaknesses identified.

DWCF Accounting Report 1307. The monthly DWCF Accounting Report 1307 allows managers to continuously track their financial position. It should reflect revenues, expenses, net operating results, capital budget obligations, and outlays. The Statement of Financial Position is part of the DWCF Accounting Report 1307; it lists the value of collections and disbursements, but managers cannot rely on its timeliness. In a memorandum to the Comptroller, DLA, on "Requirements to Support Defense Business Operations Fund (DBOF) Cash Management," February 6, 1995, the Principal Deputy Director, DFAS, stated that in some instances, the revised DWCF Accounting Report 1307 may have to be prepared manually until system changes are made. As a result, the report may not be timely.

Weekly Flash Cash Report. The Weekly Flash Cash Report summarizes, 2 days after the end of the work week, collection and disbursement transactions reported by disbursing offices. The DFAS Centers summarize the weekly flash cash data provided by DoD disbursing offices and transmit these data to the DFAS Indianapolis Center. The DFAS Indianapolis Center combines the data provided by the Centers and prepares the report for distribution within DoD. Cash managers in the Defense agencies do not consider the Weekly Flash Cash Report a reliable tool for cash management because of problems with completeness, accuracy, and timeliness.

Financial Report Issues Discussed in Prior Audit Reports. In prior audits, we identified problems with the Weekly Flash Cash Report. The feeder reports did not match the reports that the DFAS Indianapolis Center transmitted to the Defense Accounting Office, Arlington, Virginia. In addition, the reports were not reconciled, and they included estimates and inaccuracies that made them ineffective for management decisions on cash flow. Headquarters, DFAS, has been aware of the problems with the Weekly Flash Cash Report for a number of years and is working to improve the report.

Problems with cash management tools and reports were also cited in GAO Report No. AIMD-96-54 (OSD Case No. 1109), "Defense Business Operations Fund: DoD Is Experiencing Difficulty in Managing the Fund's Cash," April 10, 1996. GAO stated that the financial reports are untimely, incomplete, and inaccurate. GAO noted that DoD is aware of the problems, but should not wait until systems are in place to improve the accuracy of these reports. Changes must be made in the interim to provide better management tools.

The NAS determined that cash monitoring and forecasting procedures within the Navy WCF were inadequate. The NAS review showed that data used to monitor cash and avoid Antideficiency Act violations were generally limited to the monthly accounting and budget execution reports, Weekly Flash Cash reports, and various cash reconciliations prepared by DFAS. The NAS review also showed that the various reports and reconciliations were deficient because of incomplete or untimely information caused by delays in cycle times.

The Air Force Audit Agency found that cash reporting systems used by the Air Force did not promptly report cash transactions to the applicable accounting stations. Because these systems lacked the capability to report transactions in real time and assess the cash balance, cash managers could not promptly and effectively:

- o determine the cash that DWCF activities earned from operations during a specific period;
- o assess the ability to pay liabilities; and
- o assess the ability to generate positive cash flows in future periods.

Corrective Actions Taken. In four reports that dealt directly with the problems of cash management, similar weaknesses in financial reports were discussed. The Assistant Deputy Director for Accounting at DFAS issued a memorandum on "Operating Policy and Procedures for the Management of Defense Working Capital Funds (DWCF) Fund Balance With Treasury Management and Contract Authority," January 21, 1997. The memorandum establishes operating procedures for cash accountability and control to facilitate timely and accurate reporting of the Fund Balance With Treasury. Those operating procedures should also facilitate more timely and accurate preparation of the DWCF Accounting Report 1307.

Specifically included in the policies and procedures are actions to establish accountability for Fund Balance With Treasury at the subnumbered account level, to implement a control procedure to ensure that amounts reported are reconciled to Treasury balances, and to develop and implement controls over amounts that are reported as undistributed disbursements and collections.

In addition, the memorandum prescribes reporting requirements for the Weekly Flash Cash Report and requires month-end reconciliation of Weekly Flash Cash Reports to actual U.S. Treasury reports. Following the DFAS operating policies and procedures should improve cash management.

Cash Management in the Defense Working Capital Funds

Originally, various Navy activities reported collection and disbursement data. The Navy has now centralized its reporting, and data are reported by the DFAS Cleveland Center. DFAS anticipates that this will reduce processing time by up to 15 days.

Training Needs. DLA training in cash management was inadequate. From the decentralization of cash management until the time of audit, the Defense agencies' cash manager provided only one training conference. Detailed cash management procedures and training needed to be developed and taught if cash is to be effectively managed in the DWCFs. In IG, DoD, Report No. 96-067, we recommended that DLA improve training which DLA agreed to do. DLA was developing a cash management handbook for use by DLA cash managers in the business areas. The handbook will provide general guidance and procedures for cash management. The handbook was to be completed by August 31, 1997, and would be available to other Defense agencies. DLA was also developing training on the management of revolving funds, including cash management techniques.

Actions Taken. The Army took several actions to provide WCF training. The Army contracted with Coopers and Lybrand L.L.P. to develop a training course for cash management. The Army WCF Cash Management Reference Guide (the Reference Guide) was issued on June 15, 1995. The Reference Guide is a tool for employees who are responsible for managing the Army WCF cash. The Reference Guide introduces cash management and gives the common requirements for Army WCF cash management, including cash forecasting, reports, and financial analysis. Appendixes give terms and definitions, sample management reports, and instructions. The Army also contracted with Coopers and Lybrand L.L.P. to develop and present cash management training to about 200 Army employees.

The NAS reported that the Navy is developing a training course in cash management. The course will address cash management policies, procedures, responsibilities, and limitations imposed by the Antideficiency Act. The course will also give procedures for developing, executing, and monitoring the cash plan.

The Air Force did not implement cash management procedures or training.

Cash Management Guidance

The lack of clear and consistent guidance from the USD(C) was one factor that prevented effective cash management. The FMR and memorandums sent to DWCF cash managers did not outline their responsibilities clearly. Although DWCFs have operated since October 1991, the USD(C) and DFAS were slow to provide comprehensive guidance on cash management.

Auditors have reported the problems since FY 1992. Specifically, the GAO reported in March 1994 that DoD needs to develop an effective cash

management policy that prescribes cash requirements needed to support the DWCFs, provides for cash forecasting, and holds DoD agencies and the Military Departments accountable for net cash outlay targets. In March 1995, the GAO also reported that DoD did not have a means of ensuring that DWCF policies are implemented consistently. Consequently, DWCF managers lack the necessary guidance to execute day-to-day operations.

We reported in April 1994 that although the Defense Business Operations Fund Implementation Plan, dated May 1992, established a milestone of July 1992 for issuing a more comprehensive cash management policy, the policy was actually issued on March 24, 1994. The USD(C) and DFAS were also tasked with developing a standard approach and methodology for cash reporting by the second quarter of FY 1994. The USD(C), the Chief Financial Officer, the DoD Components, and DFAS were to establish policies and procedures for adjustments to financial reports. Our report stated that new policies are needed to ensure that responsibilities for cash management are clearly delineated and uniform accounting procedures are used.

In addition, we recommended in 1997 that the USD(C) establish a cash management approach with a consistent method of collecting and disbursing cash. The policy should state whether it is appropriate for an agency that is not required to report Antideficiency Act violations to disburse more cash than it collects. The DWCF study group is now developing a policy.

Study Group

In response to Public Law 104-201, "Requirement for Preparation of Plan for Improved Operation of Working-Capital Funds and Effect of Failure to Produce an Approved Plan," section 363, September 23, 1996, DoD established the DWCF study group. The study group was directed to present the plan to Congress by September 30, 1997. The cash management subcommittee of the study group is addressing the following issues:

- o developing an adaptable cash management model,
- o cash management policies,
- o the roles of cash managers and administrators in the DoD Components, and
- o liability for operating losses in the DWCFs and treatment of annual operating losses.

Summary

Since the DWCFs were established, at least four audit reports have dealt with the problems of cash management. The reports found similar weaknesses: the use of interim actions to control cash levels, inefficient cash collection, poor financial reports, inadequate training of managers, and inadequate guidance for cash management. DoD has not taken adequate action to correct the reported problems. Although DFAS issued policies and procedures that should improve cash management, improvements in financial systems are needed to fully correct the problems with poor financial reports. Additionally, DoD must improve guidance to ensure more consistent and effective management. Until DoD implements the needed corrective actions, it will continue to have problems with cash management.

DoD organizations have begun implementing audit recommendations to correct most of the problems discussed above. Therefore, we are not making repeat recommendations. However, the Air Force did not implement procedures or a training program for its employees who were responsible for cash management.

Recommendation, Management Comments, and Audit Response

We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) develop procedures and implement a training program on cash management for Air Force employees involved in the day-to-day management of cash.

Management Comments. The Assistant Secretary of the Air Force (Financial Management and Comptroller) concurred. The Air Force expects to have a training program for cash managers by October 1998. Included in the training will be procedures for understanding cash forecasting, accounting processes, and cash requirements for business processes.

Other Management Comments and Audit Response

Management Comments. The USD(C) was not required to comment, but provided clarification on the WCF, interim actions to control cash levels, and corrective actions taken by the USD(C) to establish policy on the acceptance of customer orders.

Audit Response. We accepted all clarifications made to the audit report by the USD(C) except one. On page 9, we did not revise the reason for the Air Force shortages because the source documents support the statement as written.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

Work Performed. We reviewed prior audit reports to identify common and recurring problems in DWCF cash management as reported by GAO and Military Department auditors. During FY 1996, the DoD reported \$73.5 billion in collections and \$74.7 billion in disbursements. See Appendix B for a list of the audit reports we reviewed. We also examined recommendations from prior audit reports and corrective actions taken by the USD(C), DFAS, and the financial management offices of the Military Departments. We reviewed current initiatives for DWCF cash management, and we interviewed personnel from the USD(C), DFAS, and the Military Department audit agencies.

Use of Computer-Processed Data. We did not use computer-processed data in the course of the audit.

Audit Period and Standards. We performed this financial-related audit from September 1996 through March 1997. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the IG, DoD.

Contacts During the Audit. We visited or contacted individuals and organizations in the DoD. Further details are available on request.

Management Control Program

The management control program was reviewed as part of the overall audit of the Fund Balance With Treasury Account and will be addressed in a subsequent report.

Appendix B. Summary of Prior Coverage

General Accounting Office

Report No. AIMD-96-54 (OSD Case No. 1109), "Defense Business Operations Fund: DOD Is Experiencing Difficulty in Managing the Fund's Cash," April 10, 1996. This report stated that DFAS was not promptly reimbursed for services provided. Army and Navy officials stated that they did not pay bills promptly because they did not always receive sufficient detail from DFAS, including the amount of money owed by organizations within a Service. DFAS informed the GAO that they had begun including more detailed information in bills. The report recommended that the USD(C) identify the cash balance for each DLA business area in the DBOF Accounting Report 1307, and that DoD organizations follow the FMR and provide funding documents to DFAS and other organizations before beginning work. The Deputy Chief Financial Officer, DoD, in a memorandum issued to the DWCF Components on December 20, 1996, emphasized DoD policy on the acceptance of customer orders.

Report No. AIMD-95-79 (OSD Case No. 9859), "Defense Business Operations Fund: Management Issues Challenge Fund Implementation," March 1, 1995. This report stated that policies were not implemented consistently and that returning cash management to the Components may result in increased needs for cash, continued advance billings, and negative cash balances. The report recommended that DoD implement policies consistently and reverse its decision to transfer cash management back to the DoD Components. DoD nonconcurred with the recommendations. DoD stated that the FMR gives policies for cash management, and that DoD had considered its experience with cash management and determined that cash management responsibilities should be returned to the DoD Components. Management comments on the GAO recommendations satisfied the intent of the recommendations.

Report No. AIMD-94-80 (OSD Case No. 9339-D), "Financial Management: Status of the Defense Business Operations Fund," March 1, 1994. This report stated that DoD should develop an effective cash management policy that prescribes cash requirements needed to support the DBOF, provides for cash forecasting, and makes DoD agencies and the Military Departments accountable for net cash outlay targets. Also, because the DBOF did not have effective cash management policies, cash shortages were experienced, and customers were

Appendix B. Summary of Prior Coverage

billed in advance. As of September 30, 1993, \$4.7 billion in DBOF disbursements had not been matched against obligations. The report made no recommendations.

Inspector General, DoD

Report No. 97-067, "Defense Agencies Cash Management in the Defense Business Operations Fund," January 10, 1997. This report stated that the \$674 million provided to the Defense agencies in December 1994 was less than the minimum cash level required by DoD policy. In addition, the DBOF manager lacked the authority, time, and accurate information needed to adequately oversee cash management. Policies did not enable the Defense agencies to manage cash consistently. Customers of the DISA DMCs did not budget for the full costs of services. As a result, during FY 1995, the DISA DMCs continued to pay bills, although disbursements exceeded collections by \$35.5 million. Further, DFAS did not receive the funding documents needed to bill customers for services rendered. Consequently, in FY 1995, DFAS disbursements exceeded collections by \$52.9 million, resulting in stopped payments to other Defense agencies.

The report recommended that the Director, DLA, give the DBOF manager the authority and time needed to manage cash for the Defense agencies; that the USD(C) strengthen cash management policy; and that the Director, DISA, ensure that data needed by customers are available by the budget planning phase. The report also recommended that the Director, DFAS, provide managers with the cash management tools needed to prevent overdisbursement at individual agencies.

The Director, DFAS, and the Director, DISA, concurred with the recommendations. The USD(C) partially concurred with the recommendation to make policy changes, and the Director, DLA, nonconcurred with the recommendations. DLA is developing a cash management handbook and training on the management of revolving funds, including cash management techniques. The IG, DoD, has followed up to mediate differences with DLA on assigning restrictive administrative targets within the DBOF. The Director, DFAS, issued a memorandum, "Operating Policy and Procedures for the Management of Defense Working Capital Funds Fund Balance With Treasury Management and Contract Authority," on January 21, 1997. The USD(C) responded to recommendations made in the report. The USD(C) did not fully satisfy the intent of the recommendation to ensure consistency in managing cash disbursements and collections. The IG, DoD, has also followed up to mediate the differences with the USD(C).

Report No. 96-178, "Internal Controls and Compliance With Laws and Regulations for the Defense Business Operations Fund Consolidated Financial Statements for FY 1995," June 26, 1996. This report identified multiple internal control weaknesses and deficiencies in supporting documentation for cash distributions and collections. Deficiencies also existed in supporting documentation for the following accounts, which affect the cash account: revenue; expenses; eliminating entries; prior-period adjustments; accounts receivable; liabilities; accounts payable; and property, plant, and equipment. The NAS recommended that DFAS provide Navy DBOF activities with data on all collections and disbursements reported in the finance network. The NAS also recommended that future directives require all Navy activities to reconcile collections and disbursements to the amounts reported in the finance network and post these reconciled items to the records. The IG, DoD, did not make any recommendations.

Report No. 96-040, "Congressionally Directed Rebates in Defense Finance and Accounting Service Cost Recovery Rates," December 11, 1995. This report identified DFAS problems with collecting payments for services rendered. USD(C) senior managers stated that beginning in FY 1996, the USD(C) would require DFAS customers to provide reimbursable funding orders to DFAS within 10 working days after the start of the fiscal year for the entire amount provided for payment of financial services. The auditors concluded that no recommendations were necessary because the actions taken by the USD(C) should correct the problems identified.

Report No. 95-195, "Statement of Financial Position for the Defense Logistics Agency Supply Management Business Area of the Defense Business Operations Fund, as of September 30, 1994," May 17, 1995. This report stated that the internal control structure for transaction processing and followup procedures within the DLA Supply Management business area did not provide reasonable assurance that the accounts receivable and accounts payable balances were accurate and supported by detailed subsidiary records. The auditors resolved the issue by obtaining the funding documents from customers and providing documents to the DFAS Columbus Center so that financial management systems could be updated and customers could be billed for outstanding receivables. No recommendations were made because the issues had been resolved.

Report No. 95-140, "Staffing Requirements for the Megacenters," March 9, 1995. This report stated that DISA Western Hemisphere did not use an appropriate methodology to estimate the staffing requirements for the 16 DMCs. The report recommended that the Director, DISA Western Hemisphere, consider workload functions performed by the computer personnel, rather than the speed at which the computer processes an instruction; revise staffing estimates; and adjust the budgets for the DMCs based on measurable workload factors. Management nonconcurred with the recommendations, stating that its methodology for determining staffing requirements was appropriate. However, management established a working group to identify and develop workload measures as a basis for estimating staffing requirements at the DMCs. The corrective actions satisfied the intent of the recommendations.

Appendix B. Summary of Prior Coverage

Report No. 94-183, "Commissary Revenues," September 6, 1994. This report identified material internal control weaknesses and stated that the implementation of the DoD internal management control program did not ensure the effective processing and recording of revenues. Internal controls were not established or did not effectively ensure that commissary revenues were properly processed, recorded, and safeguarded. The IG, DoD, recommended that the Director, DFAS, use interfund billing procedures to collect debts for charge sales from Federally-funded commissary customers. The Director, DFAS, nonconcurred, stating that the DFAS Standard Financial System cannot handle interfund billing procedures as a stand-alone system. The automated system for Army commissaries is not able to originate interfund bills. The Standard Financial System, a supply system that handles billings for the Army, is teamed with the automated system for Army commissaries. Due to the magnitude of system changes that would be required to accommodate interfund billing, interfund procedures will not be used until a new system replaces the existing one. The corrective actions satisfied the intent of the recommendations.

Report No. 94-082, "Financial Management of the Defense Business Operations Fund-FY 1992," April 11, 1994. This report stated that cash transactions were not accurately recorded on the financial statements because the DoD Comptroller (now the USD[C]), had not issued written guidance for cash management of the DBOF, and had not established oversight procedures to ensure that accounting policies were followed. In addition, the various automated accounting systems in use by the DFAS Centers were not uniform and did not provide consistency in financial reporting or comparability of operations for the DBOF. The Deputy Comptroller, DoD, was tasked with developing comprehensive policies and procedures for cash management. The report recommended internal reconciliation procedures for disbursements and collections, adequate documentation to support accounting adjustments, and improved audit trails. Management concurred with the recommendations.

Report No. 93-134, "Principal and Combining Financial Statements of the Defense Business Operations Fund," June 30, 1993. This report stated that controls over cash were inadequate, a material discrepancy existed between the DBOF cash balance and Department of the Treasury records, and the Weekly Flash Cash Reports were inaccurate. The report contained no recommendations. Management generally concurred with the material weaknesses identified in the report.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Acquisition and Technology)
 Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
 Deputy Chief Financial Officer
 Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy
Naval Postgraduate School

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Unified Command

Commander in Chief, U.S. Transportation Command

Other Defense Organizations

Director, Defense Commissary Agency
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service

Other Defense Organizations (cont'd)

Director, Defense Information Systems Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office

Chairman and ranking minority member of each of the following congressional
committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Under Secretary of Defense (Comptroller) Comments



COMPTROLLER
(Program/Budget)

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

OCT 20 1997

MEMORANDUM FOR INSPECTOR GENERAL

SUBJECT: Audit Report on Cash Management in the Defense Working Capital Funds (Project No. SFH-2021-02)

The Office of the Under Secretary of Defense (Comptroller) was requested to comment on the draft report. The audit contains one recommendation that applies to the Air Force, and they will provide comments separately. Statements made in the audit concerning other Components will also be addressed by the Components under separate cover. There is, however, a need to provide some clarifying information on the basic contents of the audit, and it is provided as an attachment.

For additional information, contact Liz Banta in the Directorate for Revolving Funds, Program/Budget at 697-1880.

A handwritten signature in black ink, appearing to read "William C. Counce".

William C. Counce
Director for Revolving Funds

Attachment
As stated

Under Secretary of Defense (Comptroller) Comments

Final Report
Reference

COMMENTS ON INSPECTOR GENERAL AUDIT REPORT ON CASH MANAGEMENT IN THE DEFENSE WORKING CAPITAL FUNDS (PROJECT NO. 5FH-2021.02)

AUDIT BACKGROUND

The last paragraph statement "there will no longer be a DoD-Wide budget authorization for the five funds combined" is inaccurate. Working Capital Funds have a standing authorization in Title 10 Section 2208 and don't require an annual authorization.

Deleted
p.5

INTERIM ACTIONS TO CONTROL CASH LEVELS

The first two sentences in the second paragraph of the Inventory Downsizing section should be changed to read: "In FY 1996 no congressional limitations on the level of inventory replacement were imposed. This made it possible for cash generated by the DLA Supply Management activity group to be used to cover cash shortages that developed in the other activity groups within the Defensewide Working Capital Fund."

Revised
p.8

The fifth paragraph of the advance billing section on the Air Force appropriation (that was not received) was a passthrough to the Working Capital Fund to pay for losses resulting from Base Closure and Realignment actions. The audit needs to point out that the outstanding advance billings reflected on the chart on page 8 are from unofficial sources and not the official accounting reports. Also on the same page, the statement about "Navy asking for \$1.2 billion in cash over three years" needs to be deleted. While the total is close to \$1.2 billion, Navy only asked for \$650 million in FY 1998 and FY 1999. Congress directed the \$500 million that is discussed in the sentence that follows.

Not Includ
p.9

Revised
p.10

CORRECTIVE ACTIONS TAKEN (PAGE 10)

The second paragraph states that USD(C) did not update the FMR to reflect the reemphasizing of the acceptance of customer orders. Since the FMR already contains the policy on the acceptance of customer orders, it is not appropriate to restate the same policy again in the FMR. However, this policy was reiterated and reemphasized in the recent SecDef Plan on DWCFs dated September 1997.

Deleted
p.12

Assistant Secretary of the Air Force (Financial Management and Comptroller) Comments



OFFICE OF THE ASSISTANT SECRETARY

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1130



19 OCT 1997

MEMORANDUM FOR OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

FROM: SAF/FM
1130 Air Force Pentagon
Washington DC 20330-1130

SUBJECT: Draft Audit: Cash Management in the Defense Working Capital Funds,
Project No. SFH-2021.02, August 22, 1997

We appreciate the opportunity to respond to subject audit. The audit finding is correct: the Air Force does not yet have a cash manager training program, but we expect to have a program developed by October 1998.

To accomplish this, Headquarters Air Force and AFMC working capital fund managers are working to develop an understanding of cash forecasting, accounting processes, and business process cash requirements. We are reviewing Army and Navy cash management training guides for additional ideas. At the same time, we are also working with a contractor, the Air Force Audit Agency and DFAS-DE to develop more precise sources and uses of cash statement—an essential tool—for each of our businesses.

This will be a major topic of a cash management summit planned for January 1998. Ms. Vera Hammonds, DSN 224-3803, is the SAF/FMBMR point of contact on cash management issues.

Robert F. Hale

ROBERT F. HALE
Assistant Secretary of the Air Force
(Financial Management and Comptroller)

Golden Legacy, Boundless Future... Your Nation's Air Force

Audit Team Members

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

F. Jay Lane
David F. Vincent
Barbara A. Sauls
Ronald D. Blake
Alvin E. Edwards
Stephanie F. Mandel
Michael Sciuto
David J. Touchette
Stacey L. Volis
Angela Clayton
Susanne B. Allen

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Cash Management in the Defense Working Capital Funds

B. DATE Report Downloaded From the Internet: 09/27/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 09/27/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.